

CITY OF DUMONT

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

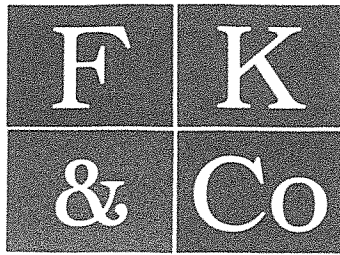
Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on the Status of Periodic Examination Findings and Recommendations	4
Status of Findings and Recommendations Previously Reported in the City's Periodic Examination Report:	<u>Finding</u>
Segregation of Duties	A 5
Reconciliation of Utility Billings, Collections and Delinquent Accounts	B 5
Clerk's Report	C 5-6
City Council Minutes	D 6
Investment Policy	E 6
Official Depositories	F 6
Local Option Sales and Services Tax	G 7
Financial Condition	H 7
Electronic Check Retention	I 7
Payroll	J 7-8
Sewer Revenue Notes	K 8
Unclaimed Property	L 8
Debt Service	M 8
Transfers	N 9
Separately Maintained Records	O 9
Annual Financial Report	P 9
Sewer Fund	Q 9-10
Insurance Property Tax Levy	R 10

City of Dumont

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2016)		
Edwin Mouw	Mayor	Jan 2016
Reid Menken	Council Member	Jan 2016
Chris Showalter	Council Member	Jan 2016
Brenda Blohm Baldwin	Council Member	Jan 2016
Jan Reysack	Council Member	Jan 2018
David Shear	Council Member	Jan 2018
Rhonda Schmidt	City Clerk	Indefinite
Jody Angstman	Utility Clerk	Indefinite
<u>(After January 2016)</u>		
Edwin Mouw	Mayor	Jan 2018
David Shear	Mayor Pro-Tem	Jan 2018
Jan Reysack	Council Member	Jan 2018
Brenda Blohm Baldwin	Council Member	Jan 2020
Reid C. Menken	Council Member	Jan 2020
Chris Showalter	Council Member	Jan 2020
Rhonda L. Schmidt	City Clerk/Treasurer	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated November 21, 2014 on the City of Dumont, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated November 21, 2014 and the current status of the City's implementation of the recommendations included in that report.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Dumont and other parties to whom the City of Dumont may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Dumont during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

October 17, 2016

CITY OF DUMONT

Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated November 21, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

Current Status – Not corrected. The recommendation is repeated.

- (C) Clerk's Report – A monthly Clerk's report, including a summary of revenues, disbursements and ending balances by fund, is not prepared. Also the Clerk's report does not show a budget vs actual comparison.

Recommendation – The City Clerk should prepare a monthly Clerk's report which includes a summary of receipts, disbursements, ending balances by fund and a budget vs actual comparison. The City Council should review and approve the Clerk's report monthly.

CITY OF DUMONT

Report on the Status of Periodic Examination Findings and Recommendations

Current Status – Corrected. The City Clerk prepares the monthly Clerk's Report which includes a summary of revenues, disbursements and ending balances by fund. The report also shows the budget vs actual comparison.

(D) City Council Minutes – The following were identified:

- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for four meetings tested were not published within fifteen days.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund, a summary of all receipts and a list of approved claims. We noted that these requirements were not met by the City for some meetings tested.

Recommendation – The City should comply with the Code of Iowa and publish total disbursements from each fund, summary of all receipts and the list of approved claims as required.

Current Status – Partially corrected. The minutes tested included total disbursements from each fund, a summary of all receipts and a list of approved claims. For one of the meetings tested, the minutes were not published within fifteen days.

(E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

(F) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

Current Status – Partially corrected. The City's Official Depository is First Security Bank & Trust. The resolution does not list the maximum amount that can be deposited at the bank.

CITY OF DUMONT

Report on the Status of Periodic Examination Findings and Recommendations

- (G) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 75% for infrastructure, 10% for equipment, training and operations of the Fire Department, 5% for the Dumont Community Library, 5% for the Park and Recreation Department, and 5% for Emergency Services for flood or disaster relief. All of the local option sales tax receipts are recorded in a special revenue fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

Current Status – Corrected. The City has supporting documentation to show that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

- (H) Financial Condition – At July 31, 2014, the City had deficit balances of \$5,063 and \$28,413 in the Employee Benefits and Capital Projects Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits to return the fund to a sound financial position.

Current Status – Partially corrected. The City Council passed Resolution No. 2015-13 to transfer funds to cover deficit balances at June 30, 2015. However, at May 31, 2016, the City had deficit balances of \$5,514 and \$34,116 in the Road Use Tax and Enterprise Water Fund, respectively.

- (I) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (J) Payroll – Timesheets are not reviewed and approved by supervisory personnel prior to preparation of payroll.

Also the City did not prepare any IRS Forms 1099 for the year ended December 31, 2013. We noted that a Form 1099 should have been issued.

CITY OF DUMONT

Report on the Status of Periodic Examination Findings and Recommendations

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review/approval should be evidenced by the supervisor's initials and the date approved. Also the City should file IRS Forms 1099 when applicable.

Current Status – Corrected. Timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. The City prepared IRS Forms 1099 for the year ended December 31, 2015.

- (K) Sewer Revenue Notes – The provisions of the sewer revenue notes require sufficient monthly transfers be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due. The City has not made the required transfers to this account.

Recommendation – The City should establish a sewer revenue note sinking account and ensure monthly transfers are made to the water revenue note sinking account as required.

Current Status – Corrected. The City has made transfers to a sewer revenue note sinking account for the purpose of making the note principal and interest payments when they come due.

- (L) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The city did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years should be remitted to the Office of Treasurer of State annually, as required.

Current Status – Not corrected. The recommendation is repeated.

- (M) Debt Service – The general obligation sewer improvement note payment was recorded in the Sewer Fund rather than the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

Recommendation – General obligation note payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

Current Status – Corrected. The general obligation sewer improvement note payment is recorded in the Debt Service Fund.

CITY OF DUMONT

Report on the Status of Periodic Examination Findings and Recommendations

- (N) Transfers – The City transfers money to and from various funds periodically. However, these transfers were not approved by the City Council prior to the actual transfer. Also the City didn't account for the transfers in accordance with the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record. The City should also follow the COA for all fund transfers, including transfers from the Emergency Fund to the General Fund.

Current Status – Corrected. The City Council approves an annual resolution to transfer funds at year end.

- (O) Separately Maintained Records – The Ambulance Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

Current Status – Not corrected. The recommendation is repeated.

- (P) Annual Financial Report - Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...". The City's Annual Financial Report reported receipts, disbursements, transfers and fund balances which do not agree with the City's records.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records.

Current Status – Corrected. The City's Annual Financial Report for the year ended June 30, 2015 agrees with the City's records.

- (Q) Sewer Fund – For the year ended July 31, 2014, the City did not record any wages or employee benefits in the Sewer Fund.

CITY OF DUMONT

Report on the Status of Periodic Examination Findings and Recommendations

Recommendation – The City should allocate a reasonable amount of wages and employee benefits to the Sewer Fund.

Current Status – Not corrected. During the time period tested, the City did not make any adjustments to the Sewer Fund to record wages or employee benefits.

- (R) Insurance Property Tax Levy – The City levies a tax to pay for liability insurance coverage. The proceeds of this tax are used to pay all the cost associated with liability insurance coverage. However, the costs incurred by the Water, Sewer, and Garbage operations for liability insurance coverage should be charged to those funds instead of the tax levy for liability insurance coverage as required by Chapter 384.16(18) of the Code of Iowa.

Recommendation – Cost incurred for liability insurance coverage for the Water, Sewer, and Garbage operations should be charged to those funds as required by Chapter 384.16(18) of the Code of Iowa.

Current Status – Not corrected. During the time period tested, the City did not make any adjustments to the Water, Sewer, and Garbage funds to record liability insurance coverage.